



Office of the
BOARD OF SELECTMEN
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MEMORANDUM

DATE: January 15, 2013

TO: Board of Selectmen

FROM: 
Andrew J. Sheehan, Town Administrator

RE: **FY 2014 BUDGET MESSAGE**

The Finance team and I have been begun developing revenue and expenditure estimates for the FY2014 budget which runs from July 1, 2013 to June 30, 2014. The current schedule anticipates departments returning their budgets on February 15, 2013. Budget hearings with departments can be scheduled after budgets are received.

As has been the case for the past few years, the outlook for FY14 is full of uncertainties. The deficit the Town faced last summer and fall was difficult and places us in a challenging starting position for FY14. Town departments have largely been living with level funded budgets for several years. As noted last year, this practice is unsustainable over time as costs continue to rise and departments fall further behind. Unfortunately, with few exceptions we have little choice but to continue on this path in FY14.

Budgeting requires that we make certain assumptions with respect to revenues and expenses. This is always an uncertain science, but conservative and reasonable assumptions minimize surprises. Several of the assumptions that we must make can fluctuate from year to year. On the revenue side the most unpredictable is State aid to cities and towns (local aid). On the expense side the largest are regional school assessments. Smaller but still significant hard to predict expenses include health insurance and retirement assessment.

Revenues

On the revenue side the tax levy will increase by the statutory 2 ½ percent. The levy will be \$13,956,189 in FY14. Local receipts, which include things such as license fees, permit fees, and excise taxes, are estimated at \$1,128,340. Local receipts still trail their ten-year average and have not reached pre-recession levels; we are continuing to take a conservative approach with local receipts in FY14. The meals tax has been in effect for one year and receipts are in line with estimates. The meals excise is projected at \$70,000.

We are assuming local aid will be level funded at FY13 amounts. Our largest source of local aid is Unrestricted General Government Aid (UGGA). UGGA topped out at \$1,454,476 in FY08. In FY14 we are assuming UGGA at \$1,111,624. This is equal to what we received in FY13. We make this assumption on the basis of information from the Massachusetts Taxpayers Foundation, the Massachusetts Municipal Association (MMA), and conversations with area managers and administrators. We will not know the true local aid number for several more months. The Governor typically uses the MMA Annual Meeting to announce budget highlights. That meeting takes place on January 25, 2013 and I will be in attendance to hear his comments. Other local aid accounts, including State Owned Land, Quinn Bill, Public Libraries, Veterans' Benefits, and Elderly and Veterans Exemptions, remain uncertain. In FY13, these other accounts totaled \$261,979 and we are projecting level funding in FY14. If all of these assumptions hold true, total local aid will be \$1,373,603.

Expenditures

Expenditures are the other piece of the budget. The following are some expenditure highlights:

- Education is our largest budget item at 55% of the General Fund budget. The assessments from the North Middlesex Regional School District and Nashoba Valley Technical High School will not be known until February or March. Fortunately, Beacon Hill appears committed to level funding education aid.
- We are seeing a significant increase in our assessment from the Middlesex County Retirement System. This increase is needed for them to fully fund their obligations by 2040 and bring their average annual growth assumptions in line with recent market performance. We are projecting our assessment to increase by \$180,000 over FY13.
- Employee health insurance is another significant cost center. We are working with our insurance pool, the Massachusetts Interlocal Insurance Association (MIIA) and our benefits advisors, Cook & Co., to redesign our employee health insurance programs in order to reduce costs. At the same time we are exploring benefits we can offer our employees that would be mutually beneficial to employees and the Town.
- The Town's curbside trash collection program is also being examined. Solid waste collection is a large cost center and one over which we have some control. Significant savings may be available and these savings will continue into the future.
- Personnel costs are a large piece of our budget. I am not proposing any reductions in employee hours for FY14. Furthermore, the Board of Selectmen made a commitment to employees with the compensation and classification plan. The preliminary spending plans factors in a 2 ½% step increase for non-union personnel. Union contracts are all currently open and negotiations are underway.

I look forward to working with the Board of Selectmen, Finance Committee, elected and appointed boards and officials, employees, and residents to provide input and ideas to address the challenges facing Townsend.